

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 70 – IMPROVEMENT ZONE DB-1
BLOOMINGTON DETENTION BASIN AND LANDSCAPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
February 2, 2009

**County of San Bernardino Special Districts
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
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Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

February 2, 2009

Jeffery O. Rigney, Director
Special Districts
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 70 IMPROVEMENT ZONE
DB-1 FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 70 Improvement Zone DB-1 for the fiscal year ended June 30, 2008.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District's County Service Area No. 70 Improvement Zone DB-1 (CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2008, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Howard Ochi, CPA
Chief Deputy Auditor

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Board of Supervisors
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County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 13,452
Interest receivable	99
Taxes receivable	273
Total assets	<u>\$ 13,824</u>
LIABILITIES	
Accounts payable	\$ 4,525
Total liabilities	<u>4,525</u>
NET ASSETS	
Unrestricted	<u>9,299</u>
Total net assets	<u>9,299</u>
Total liabilities and net assets	<u>\$ 13,824</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Governmental Activities
EXPENSES	
Services and supplies	\$ 24,946
Professional services	12,991
Utilities	5,676
Total expenses	<u>43,613</u>
PROGRAM REVENUES	
Charges for services	<u>37,777</u>
Total program revenues	<u>37,777</u>
Net program (expense) revenue	<u>(5,836)</u>
GENERAL REVENUES	
Interest and investment income	<u>388</u>
Total general revenues	<u>388</u>
Change in net assets	(5,448)
Net assets - beginning	<u>14,747</u>
Net assets - ending	<u><u>\$ 9,299</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Balance Sheet
Governmental Funds
June 30, 2008

	<u>MAJOR FUND</u>	
	Special Revenue Fund (SLB)	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 13,452	\$ 13,452
Interest receivable	99	99
Taxes receivable	<u>273</u>	<u>273</u>
Total assets	<u>\$ 13,824</u>	<u>\$ 13,824</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 4,525	\$ 4,525
Total liabilities	<u>4,525</u>	<u>4,525</u>
Fund balances:		
Unreserved:		
Undesignated	<u>9,299</u>	<u>9,299</u>
Total fund balances	<u>9,299</u>	9,299
Total liabilities and fund balances	<u>\$ 13,824</u>	
Amounts to reconcile to net assets reported in the statement of net assets:		<u>-</u>
Net assets of governmental activities		<u>\$ 9,299</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	<u>MAJOR FUND</u>	
	Special Revenue Fund (SLB)	Total Governmental Funds
REVENUES		
Charges for services	\$ 37,777	\$ 37,777
Interest and investment income	388	388
Total revenues	<u>38,165</u>	<u>38,165</u>
EXPENDITURES		
Services and supplies	24,946	24,946
Professional services	12,991	12,991
Utilities	5,676	5,676
Total expenditures	<u>43,613</u>	<u>43,613</u>
Excess of revenues over (under) expenditures	(5,448)	(5,448)
Fund balances - beginning	<u>14,747</u>	<u>14,747</u>
Fund balances - ending	<u>\$ 9,299</u>	<u>\$ 9,299</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Fiscal Year Ended June 30, 2008**

Net change in Fund Balances - Total Governmental Funds	\$ (5,448)
Amounts to reconcile to governmental activities reported in the statement of activities:	<u>-</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (5,448)</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Service Area No. 70 – Improvement Zone DB-1(CSA) – is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter (County). The CSA was established by an act of the Board of Supervisors of the County of San Bernardino on February 10, 2004 for the purpose of maintaining two detention basins, 28 streetlights and 4 landscaped intersections in the City of Bloomington, California.

The District is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the CSA and are not intended to present the financial position of the County taken as a whole.

Because the District meets the reporting entity criteria established by the Government Accounting Standards Board (GASB), the District's financial statements have also been included in the Comprehensive Annual Financial Report of the County of San Bernardino as a "component unit" for the fiscal year ended June 30, 2008.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the County expanded its definition of “available” to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

The *special revenue fund* is the government’s primary operating fund. It is also the only fund utilized by the CSA. It accounts for all financial resources of the general government such as the revenues and expenditures for detention basins, landscape and streetlights.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earning through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium-term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income and realized gains and losses earned on pooled investments are deposited quarterly to the CSA's accounts based upon the CSA's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the CSA annually. Cash and cash equivalents are shown at fair value as of June 30, 2008.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Net assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets of the County that are not restricted for any project or other purpose.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing resources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NOTE 2: CASH AND INVESTMENTS

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it a SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code. State law now requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$4.12 billion at June 30, 2008.

As of June 30, 2008, the fair value of the County Pool was \$4.44 billion. Approximately 8% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2008, \$20.9 million of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2: CASH AND INVESTMENTS – Continued

The fair value of the pool is determined monthly, and depends on, among other factors, the maturities and types of investments and general market conditions. The fair value of each participant's position including both voluntary and involuntary participants is the same as the value of the pool share. The method used to determine participants' equity withdrawn is based on the daily average book value of the participants' percentage participation in the pool.

The County has not produced or provided any letters of credit or legal binding guarantees as supplemental support of pool values during the year ended at June 30, 2008. The pool provides monthly reporting to both the Board of Supervisors and the County Treasury Oversight Committee who also review and approve investment policy.

The County does not pool its external participants' investments separately from the County pool. The average rate of return on investments during fiscal year 2008 was 4.53%.

A summary of the investments held by the County Treasurer is as follows (amounts in thousands):

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Average Maturity</u>
U.S. Treasury Securities	\$ 14,984	\$ 15,058	3.36%	10/15/08	107
U.S. Government Agencies	2,496,871	2,501,610	2.49% - 5.53%	7/9/08 - 4/18/11	533
Negotiable Certificates of Deposit	781,725	780,075	2.38% - 3.02%	7/1/08 - 2/27/09	66
Commercial Paper	525,246	528,556	2.36% - 2.91%	7/1/08 - 11/28/08	37
Corporate Notes	197,502	194,780	2.72% - 5.66%	8/15/08 - 1/4/09	373
Money Market Mutual Funds	215,000	215,000	2.53%	7/1/08	1
Repurchase Agreements	100,000	100,000	2.57%	7/1/08	1
Total Treasurer's Pooled Investments	\$ 4,331,328	\$ 4,335,079			
Investments Controlled by Fiscal Agents:					
Money Market Funds	19,403	19,403			
Mutual Funds	17,187	17,187			
Guaranteed Investment Contracts	35,918	35,918			
U.S. Treasury Securities	82,612	82,612			
U.S. Agency Discount Notes	6,581	6,581			
Total Investments Controlled by Fiscal Agents	\$ 161,701	\$ 161,701			
Total Investments	\$ 4,493,029	\$ 4,496,780			
Cash in Banks:					
Non-Interest Bearing Deposits		\$ 35,807			
Total Cash and Investments		\$ 4,532,587			

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 2: CASH AND INVESTMENTS – *Continued*

<u>Investment Type</u>	<u>S&P Rating</u>	<u>Moody's Rating</u>	<u>Fitch Rating</u>	<u>Maximum Allowed % of Portfolio</u>	<u>Individual Issuer Limitations</u>	<u>% of Pool 06/30/08</u>
U.S. Treasury Securities	AAA	Aaa	AAA	100%	None	0.30%
U.S. Government Agencies	AAA	Aaa	AAA	75%	None	57.70%
Negotiable Certificates of Deposit	A1+	P1	F1+	30%	\$100MM	18.00%
Commercial Paper	A1+	P1	F1+	40%	10\$	12.20%
Corporate Notes	AA	Aa1	AA+	10%	\$50MM	4.50%
Money Market Mutual Funds	AAA	Aaa	AAA	15%	10%	5.00%
Repurchase Agreements	A1	P1	F1+	40%	None	2.30%

Investment authorized by debt agreement

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

Investment credit risk

Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer. As of June 30, 2008, all investments held by the County pool were within policy limits.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 2: CASH AND INVESTMENTS – *Continued*

Concentration of credit risk

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a concentration of credit risk.

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five percent or more of total investments held.

This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2008, the following issuers represented more than five percent of the County pool balance (amounts in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FNMA	\$ 764,170	17.63%
FHLB	\$ 714,683	16.49%
FHLMC	\$ 576,214	13.28%
FFCB	\$ 446,543	10.30%

Interest rate risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that interest rate risk be disclosed using a minimum of one of five approved methods which are: segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall effective duration of 1.5 years or less. Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule, amounts in thousands). As of June 30, 2008, all investments held by the County Pool were within policy limits. A summary of investments for maturity range, maturity limits, maturity average and effective duration is as follows:

County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2: CASH AND INVESTMENTS – Continued

Investment Type	Fair Value	Maturity Range (Days)	Maturity Limits	Average Maturity	Effective Duration
U.S. Treasury Securities	\$ 15,058	107	5 Years	66	0.29
U.S. Government Agencies	2,501,610	9 - 1,022	5 Years	37	1.28
Negotiable Certificates of Deposit	780,075	1 - 242	365 days	373	0.18
Commercial Paper	528,556	1 - 151	270 days	533	0.1
Corporate Notes	194,780	46 - 492	18 months	1	0.97
Money Market Mutual Funds	215,000	1	Daily Liq.	1	0.003
Repurchase Agreements	100,000	1	180 days	107	0.003
Total Securities	<u>\$ 4,335,079</u>			<u>311</u>	

Custodial credit risk

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party. GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2008, the carrying amount of the County's deposits was of \$35.8 million and the corresponding bank balance was \$96.5 million. The difference of \$60.7 million was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$200,000 was insured by the FDIC depository insurance and \$96.3 million was uncollateralized and not insured by FDIC depository insurance. Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. In order to limit Custodial Credit Risk for Investments, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a TBMA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2: CASH AND INVESTMENTS – *Continued*

A separate financial statement is not issued for the external investment pool. The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2008 (amounts in thousands):

Statement of Net Assets	
Equity of internal pool participants	\$ 1,717,967
Equity of external pool participants:	
Voluntary	209,520
Involuntary	2,407,592
Total Net Assets held for pool participants	<u>\$ 4,335,079</u>
 Statement of Changes in Net Assets	
Net Assets at July 1, 2007	\$ 3,964,496
Net change in investments by pool participants	370,583
Net Assets at June 30, 2008	<u>\$ 4,335,079</u>

As of June 30, 2008, Cash and Investments of CSA 70 – Improvement Zone DB-1 are classified in the accompanying financial statements as follows:

	Total Governmental Activities
Cash and Cash Equivalents	<u>\$ 13,452</u>
Total Cash and Investments	<u>\$ 13,452</u>

NOTE 3: SELF-INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$35 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Notes to the Financial Statements
For Fiscal Year Ended June 30, 2008**

NOTE 3: SELF-INSURANCE – Continued

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claims made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an internal service fund), except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The incurred but not reported (IBNR) and incurred but not settled (IBNS) liabilities stated on the Risk Management fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 2.75%. It is the Department's practice to obtain actuarial studies on an annual basis.

The total claims liability of 149.3 million reported on the Risk Management fund's balance sheet at June 30, 2008 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2007 and 2008 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2006-07	\$127,233	\$34,312	(\$31,862)	\$129,683
2007-08	\$129,683	\$51,702	(\$32,064)	\$149,321

County of San Bernardino
County Service Area No. 70 – Improvement Zone DB-1
Bloomington Detention Basin and Landscape
Budgetary Comparison Schedule
For Fiscal Year Ended June 30, 2008

General Fund (SLB)	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
Budgetary Fund Balance, July 1, 2007	\$ 14,747	\$ 14,747	\$ 14,747	\$ -
Resources (inflows):				
Charges for Services	39,312	39,312	37,777	(1,535)
Interest & Investment Income	500	500	388	(112)
Amounts Available for Appropriations	54,559	54,559	52,912	(1,647)
Charges to appropriations (outflows):				
Services and Supplies	36,628	36,628	24,946	11,682
Utilities	3,000	3,000	5,676	(2,676)
Professional Services	10,266	10,266	12,991	(2,725)
Reserves and Contingencies	4,665	4,665	-	4,665
Total Charges to Appropriations	54,559	54,559	43,613	10,946
Budgetary Fund Balance, June 30, 2008	\$ -	\$ -	\$ 9,299	\$ (12,593)